

TESTIMONY OF RICHARD M. CHRISTMAN, CASENEWHOLLAND INC.  
ON BEHALF OF  
THE NATIONAL FOREIGN TRADE COUNCIL  
AND  
THE COALITION FOR EMPLOYMENT THROUGH EXPORTS  
ON  
REAUTHORIZATION OF THE EXPORT-IMPORT BANK  
MAY 8, 2001

Mr. Chairman and Members of the Subcommittee, I am Rich Christman, President of Case IH Agricultural Business of CaseNewHolland Inc. (CNH). CNH is the number one manufacturer of agricultural tractors and combines in the world, the third largest maker of construction equipment, and has one of the industry's largest equipment finance operations. I am testifying today on behalf of the National Foreign Trade Council (NFTC) and the Coalition for Employment Through Exports (CEE), whose members comprise major U.S. exporters and financial institutions.

SUMMARY: EX-IM NEEDS A 5-YEAR REAUTHORIZATION

At the outset, let me emphasize that CNH and the other members of CEE and the NFTC urge Congress to reauthorize the Export-Import Bank of the United States (Ex-Im Bank) for five years. It is essential to American exporters and workers that the Bank's charter be reauthorized until September 30, 2006. This would avoid the difficulty which occurred in 1997 and again this year when reauthorization occurs in the first year after a Presidential election and in the same year when the Ex-Im Chairman's and Vice Chairman's terms expire.

We look to your leadership in ensuring the Bank is fulfilling its mandate to promote U.S. exports and jobs by being fully competitive with other major export credit agencies (ECAs). In this regard, adequate appropriations are as important as reauthorization in accomplishing this

critical goal, Ex-Im's budget must be funded adequately and its policies and procedures must recognize the realities of today's fiercely competitive global market place. Its independent status also must be reaffirmed and strengthened.

### BACKGROUND ON CASENEWHOLLAND

CNH is the number one manufacturer of agricultural tractors and combines in the world, the third largest maker of construction equipment, and has one of the industry's largest equipment finance operations. Revenues in 2000 were over \$10 billion. Based in the United States, CNH's network of 10,000 dealers and distributors operates in over 160 countries. CNH agricultural products are sold under the Case IH, New Holland and Steyr brands. CNH construction equipment is sold under the Case, Fiatallis, Fiat-Hitachi, Link-Belt, New Holland, and O&K brands.

CNH is engaged in three principal lines of business: agricultural equipment, construction equipment and financial services. These businesses are organized globally with separate, brand-driven commercial organizations and distribution networks. CNH was formed in 1999 through the merger of New Holland and Case Corporation. CNH is building on the legacies of both organizations, which together have a combined 265-year history. Jerome Increase Case founded the J I Case Company in 1842 and soon gained recognition as the first builder of a steam engine for agricultural use. In 1895 New Holland Machine Company was founded in Pennsylvania specializing in agricultural equipment.

In maintaining the leading brands of both companies, while combining manufacturing, engineering, purchasing and other business functions, CNH is preserving choice for its customers, furthering its industry leadership position and creating value for shareholders.

### CNH EXPORTS BENEFIT OUR SUPPLIERS

CEE and NFTC recently issued a report on the important benefits of Ex-Im to small and medium businesses. The report highlights the thousands of invisible exporters across the nation by listing more than 35,000 primary suppliers of goods and services to 13 major U.S. exporters. CNH was one of the 13 participants in the study.

At CNH our construction equipment moves the earth and our agricultural equipment helps feed the world. How do we do this? By exporting our construction machinery and our agricultural machinery to more than 160 countries around the globe. Why do we do this? Trading gives us an opportunity to grow our business when we go abroad to sell our products. It also gives our suppliers an opportunity to grow their business because, through our exports, their products also reach our global customers. Each of our suppliers can be viewed as an “invisible exporter.” Key to these accomplishments is our continuing relationship with our suppliers. These solid relationships are integral to our manufacturing and exporting success as well as the success of our suppliers. Many of our exports are assisted by Ex-Im. The result, exporting CNH equipment means importing business for our suppliers and us.

### EX-IM BANK IS VITALLY IMPORTANT TO CNH

One of the things that continuously surprises CNH is how misunderstood international trade, as an issue, is with opinion leaders, American workers, and even our global trading partners. As a result, CNH has embarked upon a very aggressive trade education program. One aspect of the program is the discussion of Ex-Im.

Ex-Im Bank is a federal agency serving as the “lender of last resort” for US exporters when commercial bank financing is not available for export sales and when the US exporter is confronted with foreign competitors which have financing available from their government. Currently, some 70 governments around the world have ECAs like Ex-Im, providing about \$500 billion a year in government-backed financing.

Increasingly, financing is a key to winning export sales. Customers now demand that exporters arrange financing for sales. However, in many emerging markets, where the greatest export growth opportunities now exist, commercial banks are often unwilling to provide financing, even for credit-worthy customers. In these cases, government export credit agencies step in to finance the sales, either through direct loans to the customer, or through guarantees and insurance that a commercial lender will be repaid by the customer. With guarantees/insurance, commercial banks are willing to provide financing.

Ex-Im is not corporate welfare. The Bank charges interest on its direct loans and premiums for its guarantees and insurance, costs that the U.S. exporter usually passes through to its overseas customer. These charges usually range from 5-17% of the financing obtained, depending on the risk. From the exporter’s and customer’s point of view, the Bank does not subsidize the cost of financing an export transaction; Ex-Im is no less expensive to use than a commercial bank or other financial intermediary.

During the many years we have worked with Ex-Im Bank, it has become clear that Ex-Im is vital to the success of our export business. For one, it counters the aggressive financing programs found abroad and, secondly, its assistance has allowed CNH, along with many other companies, to increase revenues and strengthen the size of the work force in the United States.

Of particular importance to CNH is the former Soviet Union where farm conditions are ideally suited to our production agriculture equipment. We have invested considerable effort during the last five years in developing marketing plans and are now only starting to reap the benefits which will create many jobs in the CNH family, its sub-suppliers and related US agribusiness suppliers for years to come. The ability to provide pioneering finance through Ex-Im has given us a leading edge in breaking into these new markets and ensuring an ever-increasing market share, resulting in jobs for American workers in Illinois, Kansas, North Dakota, Minnesota, Pennsylvania, Iowa, Nebraska and Wisconsin from our plants. The effect on our hundreds of sub-suppliers and their industries magnifies the overall job creation effect significantly.

At this juncture, we cannot risk foreign suppliers stepping into these markets because of financing support from their own ECAs. Lack of a viable and fully funded Ex-Im Bank would adversely impact the ability of our company to compete against formidable foreign suppliers. Last year, Ex-Im Bank provided some 2,500 US exporters with \$12.6 billion in financing. This supported \$15.5 billion in export sales. The sales figure is higher because Ex-Im never finances 100 percent of a sale, always requiring other parties to take at least 15 percent of the risk. However, based on CEE/NFTC projections, we believe that in order to fully fund Ex-Im to cover anticipated demand in FY 2002, the Bank needs \$1.5B in appropriations. However, the Administration has announced a 25% reduction in their program budget below the current level of \$927 million. The mission of Ex-Im is to support US jobs, and having more money available is needed to do this, not less. If Ex-Im experiences a short-fall in funding, then US exports -- and export-related workers -- will feel the impact. Ex-Im is the major US agency available to help

US exporters meet the competition. If Ex-Im is not available, the sales will go to our foreign competitors.

From 1997 through 2000 CNH financed nearly \$420,000,000 worth of Ex-Im Board approved transactions to Uzbekistan, Turkmenistan, and Ukraine. Without Ex-Im none of these sales would have been completed and many of our workers at our Racine, WI tractor plant, East Moline, IL, combine and cotton picker plant, Grand Island, NE, combine plant would not have had jobs. This does not even consider the impact on the hundred of thousands of other employees at our supplier's factories or even their sub-suppliers. Approximated 30-70% of our machinery's cost is purchased parts. This, consequently, has a dramatic impact on our suppliers and their bottom line.

For example:

- It takes over 235 suppliers in 30 states, representing about 100,000 employees to build and export just one of the combines manufactured by Case IH.
- It takes nearly 200 suppliers in 27 states, representing about 75,000 employees to build and export just one of the tractors manufactured by Case IH.
- It takes 180 suppliers in 26 states, representing about 63,000 employees to build and export just one of the loader backhoes manufactured by Case.

Let me call your attention to the attached brochures: Who Benefits When Case Exports a Tractor? and Who Benefits When Case Exports a Combine?

In the 16 states represented by Members of the International Monetary Policy and Trade Subcommittee of the House Financial Services Committee States we have suppliers in 12 of 16 states. Moreover, just focusing on three of the fourteen plants (Racine, East Moline, Wichita) we have in the US, we have over 500 suppliers in 34 states.

We simply could not have achieved this degree of success without Ex-Im's valuable assistance. No commercial entity exists or is planned to replace the risk absorption capacity of Ex-Im Bank and the future role of agribusiness in US exports depends on its continued viability. Currently, the United States ranks seventh behind The Netherlands in support for exports. Without the support Ex-Im Bank, US agribusiness will be at a distinct disadvantage against foreign competitors.

#### CNH'S U.S. MANUFACTURING FACES GROWING FOREIGN COMPETITION

The decade of continuous economic growth and fast technology development left us all - the businessmen and politicians alike - pretty much assured that North America remains the largest market in the world with the demand capacity being practically unlimited. But is it the right assumption?

Let me challenge this supposition by sharing with you some market data that we at CNH are being faced with now and then in exploring new business development opportunities in the world markets. Our company is one of the global leaders in agriculture machinery. In fact we are the number one manufacturer of agricultural tractors and combines in the world. We manufacture and sell combine harvesters and tractors in North America. The annual production capacity of our East Moline, IL combine plant is over 6,000 units, while our tractor factory in Racine, WI is capable of assembling more than 15,000 units per year. This supply capacity is more than enough to cover the current demand of the American farmers and more! Currently, we are producing about 2,600 combines and 5,700 tractors at these facilities, respectively. You might be genially surprised to know that the potential demand for these products on just one of

the many export markets – Russia – is estimated by authorities at 100,000 combines and 300,000 tractors.

Getting access even to a small share of this huge market would have resulted in creating many extra job opportunities not only in the US industrial factories, but in service industry, transportation and other sectors of the economy. More than that, given stable positions on large emerging markets like Russia, we could easily cope with such serious economic problem like the cyclical North American agriculture machinery sector, supposedly the biggest market in the world.

Why then is the impact of the exports to Russia – with annual sales of not more than 400-500 combines and approximately the same amounts of tractors – so negligible? The answer is simple – availability of financing.

I am sure you are aware that most of the modern agriculture equipment is being purchased by farmers on credit terms allowing them to repay the value of the machines over time from the revenues generated with the use of combines, tractors, ploughs, seeders, etc. As future proceeds from agriculture yields are very unpredictable, financing of equipment purchases is associated with high risks. In most of the markets suppliers are sharing these risks with all kind of specialized organizations – banks, financing firms and leasing companies.

With export markets becoming more and more competitive, the traditional private sources of financing are supplemented with the government budget funds used to support the domestic suppliers through the financing facilities of the ECAs like the Ex-Im Bank. ECA financing works primarily as an insurance, where the full faith and credit of a government is used to guarantee the repayment of the credits provided to the exporters through syndicated loans from the private financial institutions. As a rule, ECAs sign the credit agreement with the



importer's government that provides the sovereign guarantee of the repayment to the ECA.

Among other things the use of such financing opens to an importer access to the most beneficial borrowing terms and conditions, supporting the competitiveness of exported products in foreign markets.

In the emerging markets increasing agriculture productivity becomes not only economical but more a political priority, as the basis for the necessary socio-economic transformations and market reforms. The massive imports of modern, highly productive agriculture equipment is the shortest way to ensure the sustainability of the agricultural production. But extremely weak state finances, undeveloped banking sector, high investment risk environment of the markets in transition very often prohibit the effective use of imports. In these circumstances Ex-Im financing become the only feasible solution to break the vicious circle in an inefficient, under-invested farming industry that is unable to generate enough revenues to support the purchases of necessary equipment.

#### HOW CNH IS USING EX-IM BANK

Let me share with you some of the real life stories in our company experience in the export markets.

**Uzbekistan** – a former Soviet Union republic in Central Asia – is a classic illustration of the successful use of US government resources allocated through Ex-Im to support the export activities of a US manufacturer. During the last seven years our company has been able to supply this comparatively small market, experiencing basically the same financial problems as Russia, with 6,000 combines, tractors and cotton pickers. Case IH brand enjoys the dominant

position in this market, successfully defending it against the efforts of such formidable competitors as Claas, Deutz-Fahr, Fendt and others.

What are the key success factors of our business in Uzbekistan? The answer is evident – availability of Ex-Im financing support to promote the sales of our equipment. The effectiveness of this support from the US side has been reinforced by CNH’s active engagement in cooperation with the Uzbekistan government. From the very beginning CNH has been focused on aligning its business model with the agriculture development priorities of Uzbekistan. The efficiency of this mutually beneficial cooperation that goes beyond traditional export deals and involves CNH participation in the manufacturing, service and financing joint ventures, ensured the generation of revenues in the sector to cover all the repayment obligations to the US Ex-Im bank in a timely and disciplined manner. As a result, Ex-Im’s credit line to Uzbekistan purchases of farming equipment has remained open.

**Ukraine** may be just an opposite case study. In mid 90s the US Ex-Im credit lines helped the American manufacturers to enter this very big agricultural market that used to be called “the bread basket of Europe.” Case IH started exploring the opportunities of a broader cooperation in the sector to develop this market to its full potential, comparable to that of Russia. But after the Ex-Im bank support was withdrawn all of our attempts to fight German suppliers in Ukraine have failed. As a result, the market has been virtually closed to the American ag machinery manufacturers during the last 3 years. Retail financing problems disrupted all other entry strategies including those through the joint venture production. On the other hand, the market is being filled with German used equipment sales by Claas, CIS suppliers using government swap

deals or exporters from the countries like Poland trying to use government export credits of KUKI.

And finally we are getting back to **Russia**. For more than 2 years CNH has been trying to develop and implement a viable entry strategy into the market. CNH has been able to explore some of the regional markets in the country, successfully competing with the European suppliers. But frankly speaking the market full potential has yet to be tapped. And Ex-Im financing support is the focal point of any strategic initiative there.

First, the level of competition in Russia is considerably higher than in any other CIS market – German Hermes, Italian SACE, Belgian OND, Japanese Ex-Im bank are actively supporting their own exporters. Besides the fact that German exporters have been traditionally enjoying the benefits of very strong brand recognition in Russia, some of them have been aggressively pushing their oversized inventory to attack CNH positions in the market. Russian producers of combines and tractors demand and receive tax breaks and direct government financial support to revive their production and sales.

Furthermore, the memories of the August 1998 default still impact the attitude of the Western private banking institutions towards large-scale projects and business opportunities in Russia.

We do appreciate the latest US Ex-Im bank efforts to find appropriate solutions for providing the necessary support to the Russian agriculture. The Bank's initiative in working with the non-sovereign regional or private bank guarantees might open new opportunities for the American exporters.

Our last decade of experience in the emerging markets is a compelling case for the crucial importance of the Ex-Im's support to successful export activities of domestic

manufacturer. It is the proof of the effectiveness of the Ex-Im agenda – to support the competitiveness of the American manufacturers in their export drive creating new employment opportunities in the US, through exports. We are counting on the US government’s continued understanding and cooperation in this area.

#### EX-IM BANK IS FINANCIALLY SOUND AND IS NOT A CORPORATE SUBSIDY

Not only is Ex-Im vitally important to the ability of CNH and other U.S. companies to compete for export sales, but we are paying the government’s costs of operating the Bank. Ex-Im charges interest on its direct loans and premiums for its guarantees and insurance. There is a widespread mis-conception that taxpayer funds are used to subsidize the terms of a Bank-backed export transaction. In fact, this is not true; Ex-Im financing is both costly and time-consuming to arrange. We always prefer private financing, but private financing is usually not available in many of the markets where our greatest growth opportunities exist: the emerging markets.

According to the Bank’s FY 2000 annual report, the Bank generated \$1.7 billion in revenues through its interest, premium and fee charges. Its total expenses, including borrowing costs, totaled \$1.4 billion. Thus the Bank generated a net \$345 million surplus for the U.S. government. Unfortunately, under the Credit Reform Act of 1990, the Bank cannot utilize its own revenues to cover its costs. Instead, the Bank must obtain annual appropriations for both its operating expenses and its loan-loss reserves. On OMB’s books, the Bank appears to have spent \$927 million, even though the Bank’s own financial statement shows a surplus. Thus, the Bank is handicapped by the government’s own budget rules.

Moreover, the Bank has a very low loss rate, historically about 2 percent. In FY 2000, the Bank paid out \$249 million in claims, even though the federal government’s process for

estimating losses required reserves of \$938 million for the \$12.6 billion in credit which was issued that year. The actual loss rate is far lower than the estimated loss rate that is used to calculate the loan-loss reserves that are required in annual appropriations. As a result, the Bank has accumulated \$10 billion in reserves, against its approximately \$61 billion in current exposure. That reserve rate is far higher than comparable commercial bank reserves.

#### EX-IM IS BEING OUTGUNNED BY OTHER EXPORT CREDIT AGENCIES

The United States is significantly behind its major trade competitors in supporting its exporters in emerging markets through competitive export financing. This is true in terms of both quantity and quality. While we debate the latest round of proposed budget cuts for Ex-Im, other countries are increasing their budgets for similar programs, leading to increased exports and jobs. Based on 1998 Berne Union data, for example, Ex-Im financed \$13.8 billion in U.S. exports that year, while Japan financed more than \$130 billion and France financed more than \$50 billion. Korea, Germany, Canada, and the Netherlands all financed significantly more exports than the United States.

In fact, the United States ranked 7<sup>th</sup> among eight advanced industrialized countries in terms of the amount of exports it supported with official export financing programs.

Not only do America's trade competitors have more export credit backing from their respective governments, they also have more innovative programs that are increasingly being used to finance their exports. Additionally, these ECAs do not have the range of policy conditions and restrictions, as well as periodic unilateral sanctions that have been imposed on Ex-Im.

For example, Germany, Canada, and other foreign governments have created and are aggressively using so-called “market windows.” These are quasi-official financing arms that operate outside of the OECD rules and borrow and lend money with the full faith and credit of their governments on much more attractive terms than Ex-Im or private banks. These market windows, such as Germany’s KfW and Canada’s EDC, claim that they operate on a commercial basis, however, there is no transparency or reporting on these activities to verify such claims. One thing is clear. U.S. private financial institutions cannot match these terms. Moreover, Ex-Im Bank believes it does not have a clear enough legislative mandate to combat these ECA practices by creating its own market window or by matching market window transactions when needed on behalf of U.S. exporters. We hope that the reauthorization legislation can rectify this serious problem and challenge faced by U.S. exporters.

In examining the practices of other foreign governments -- in Europe, Japan and Canada - the one common theme among them is that they are aggressively competing against U.S. exporters and tailoring their export finance programs with the single objective of promoting their respective country’s exports. Ex-Im Bank must have a similar focus if American exporters and their workers are to succeed in the global marketplace. Without a level playing field, U.S. exports and jobs will be lost.

While Ex-Im Bank has made recent progress in updating some of its procedures to improve its competitiveness, changes which U.S. exporters have urged be adopted for years, much more remains to be done. In line with its mandate of leveling the playing field on behalf of U.S. exporters and jobs, needed additional steps include combating tied aid and “untied aid” practices through aggressive use of the tied aid war chest. We also can no longer afford to ignore the phenomenon of market windows. Ex-Im should have the legislative mandate to

combat these practices, alongside a focused government wide effort to negotiate rules to bring these practices within the OECD Arrangement.

### U.S. EXPORTERS AND WORKERS NEED A STRONGER EX-IM BANK

Our experience at CNH and that of other major U.S. exporters leads us to one over-riding conclusion: we need a stronger Ex-Im Bank, with more robust financing products and a more aggressive approach. We can compete with anyone in the world on quality, service and price, but no U.S. company can compete on its own against foreign companies which have the backing of well-funded and aggressive government-backed export credit agencies.

Increasingly, finance determines who wins export sales. Our customers expect us to bring financing to the table. If our competitors are able to utilize their governments' export credit agencies and we do not have Ex-Im backing, we will lose out and the jobs flowing from those sales will go to foreign workers.

The U.S. government must look on Ex-Im as an essential component of our overall trade competitiveness. The Bank's mix of products must be calibrated to match those of other export credit agencies. The Bank's budget must be large enough to allow the Bank to issue the volume of financing that U.S. exporters request – every year. When other export credit agencies develop innovative financing mechanisms, such as market windows, Ex-Im Bank must bring equivalent mechanisms on line. To do otherwise would put U.S. exporters and their workers at a serious competitive disadvantage.

### THE ADMINISTRATION'S PROPOSED BUDGET CUTS WILL COST U.S. EXPORTS AND JOBS

While not a reauthorization issue per se, we must alert you to our grave concerns about the Administration's proposed budget cut for Ex-Im next year.

The Bush Administration has proposed a 25 percent cut in the Bank's FY 2002 budget. All of this reduction would be taken from the Bank's loan-loss reserve funds. With fewer funds for loan-loss reserves, the Bank would have to reduce the amount of financing available for U.S. exporters.

OMB indicates that it would implement the budget cut through a combination of unilateral fee increases in some markets, reductions in the amount of a transaction which the Bank finances, restrictions on the availability of financing to some U.S. companies and a recalibration of the amount of loan-loss reserve required for a given amount of credit.

Of those four specific proposals, the first three all would have the effect of reducing the competitiveness of the Bank and U.S. exporters. Unilateral fee increases, cuts in the Bank's share of a transaction and added hurdles for qualifying for Ex-Im financing all would make U.S. exporters' financing proposals more costly and less attractive to our overseas customers. As a result, loss of export sales would be inevitable.

Of particular concern to us is the fact that the Administration's proposed cut comes while other governments are increasing their own export credit agencies. Canada, for example, has increased the volume of its export credit agency to \$30 billion in 2000, up from \$19 billion in 1998. By contrast, Ex-Im's financing volume in FY 2000 was \$12.6 billion.

In sum, the Administration is headed in the wrong direction, to the detriment of U.S. exports and American jobs. We urge you to indicate to the Appropriations Committee your concerns about the Administration's ill-advised reductions.

Thank you. I'll be happy to answer any questions at this time.